USING A RESTAURANT'S DATA TO TELL A COMPELLING STORY: Changing DOA to LOL!

In today's market, it can be challenging for restaurants to get a bank loan. The rate of new restaurant failures far outweighs the successes, and the used equipment does not have much value as collateral.

Now and then circumstances beyond anyone's control put a business in jeopardy.

Many banks make underwriting decisions only using past information (such as income tax returns which could be a year old) versus current information that shows a problem has been fixed.

Out client is a restaurant with a loyal following and is over two decades old. A series of events, brought on by the unexpected death of the owner, threw the restaurant into a temporary tailspin. A family member and spouse assumed ownership and used us to help repair the damage.

We used peer group financial data to benchmark our results. These numbers verified that our gross profits were considerably less than their peers, and the data showed the specific P&L expenses that were to blame.

During the turmoil, our clients had neglected revising menu prices to match significant increases in food costs—particularly meat and fowl. We provided the owners with an app that calculated each menu item's cost in terms of each ingredient that made up the item. The program calculates the gross margin (price – cost) of each menu item, and prepares a list of all items that made less profit than the minimum desired. This information is interactive, so the owners can experiment with different prices and see the results right away. They went through their entire menu and made pricing revisions where warranted.

Fortunately, the app is for continual use. Each delivery of a major food ingredient is entered, and the cost per ounce is recalculated. This value is then pushed down to all menu items using the ingredient, and gross margins are recalculated. Since the analysis is ongoing, the restaurant will always have a handle on how changing prices affect profitability.

The owners also worked to bring the costs that were out of line under control.

The combination of the pricing changes and cost reductions showed up immediately on the financial statements. Four weeks of evidence confirmed that revenues had increased by 10% and costs had been reduced by a similar amount; therefore, our gross margin and pre-tax profit *exceeded industry peers.*

We prepared a presentation that showed before and after results using interim Profit and Loss statements. As one would expect, both the price increases and reduced expenses went straight to the bottom line. We felt we were ready to talk to a bank about a term loan.

The restaurant's current bank was one that would not consider forward-looking results. We approached two other banks that agreed to look at us. One turned us down. The other bank was willing to look at more than just the old numbers and agreed with our evidence that the changes we had made in operations were impactful, real and ongoing.

Our client received the loan!